

**OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON, D.C.
20508**

**USTR Press Releases are available on the USTR home page at WWW.USTR.GOV.
They are also available through the USTR Fax Retrieval System at 202-395-4809.**

**FOR IMMEDIATE RELEASE
Wednesday August 5, 1998**

**Contact: 98 - 73
Jay Ziegler
Helaine Klasky
(202) 395-3230**

UNITED STATES WINS WTO CASE ON KOREAN LIQUOR TAXES

In response to news reports out of Germany, a dispute settlement panel of the World Trade Organization did find that Korean taxes on distilled spirits violate Korea's WTO obligations concerning discriminatory taxes. This decision on a case brought before the WTO last year by the United States and the European Union should have constructive market-opening results for U.S. exports of distilled spirits.

In response to the WTO panel's decision on Korean liquor taxes, U.S. Trade Representative Charlene Barshefsky stated: "This WTO case reflects our concern about discriminatory taxes overseas that have restricted market access for U.S. products. We expect Korea to undertake the necessary steps to eliminate these unfair discriminatory trade barriers and open its markets in line with its WTO obligations."

The dispute settlement panel report, issued on July 31, supports the U.S. challenge to two Korean laws that apply higher taxes to U.S. distilled spirits exports than to Korea's domestically produced distilled spirit, soju. The panel found that these taxes violate Article III:2 of the General Agreement on Tariffs and Trade because they afford protection to domestic production of soju.

Background:

In 1996, the United States exported \$1.4 million of whiskey to Korea, including \$1.03 million of bourbon whiskey. Despite Korean consumer interest in U.S. whiskey, U.S. exports remain at very low levels and account for less than 1 percent of the total Korean market for distilled spirits because of the exorbitant taxes and tariffs they face. U.S. exports to Korea of other distilled spirits (rum, brandy, gin, vodka, cordials and liqueurs) totaled \$443,000 in 1996. The U.S. industry anticipates that U.S. exports of whiskey and other spirits will grow dramatically if they are accorded tax

treatment equal to that granted to soju and other local spirits.

Korea's taxation of alcoholic beverages is based on a two-tiered taxation regime. First, under a general liquor tax law, Korea imposes an ad valorem tax of 100 percent on whiskey and brandy and of 80 percent on vodka, rum and gin. Meanwhile, Korea applies a tax of only 35% to soju, its locally produced distilled spirit which has been compared to vodka. This differentiation is made even more dramatic by the application of an Education Tax that is higher when the liquor tax rates are higher. The result of this tax rate differentiation is a tax burden on U.S. whiskey this is over four times greater than the burden on soju, assuming the actual prices were the same.

The United States and EU have complained about Korea's discriminatory taxation policies for many years following Korea's elimination of its formal ban on imported distilled spirits in 1986. After numerous consultations failed to settle the dispute, the WTO established a panel on October 16, 1997.